

Message Text

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ACTION EA-12

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COME-00 XMB-02 SS-15 SP-02 STR-07 AGR-01 SIL-01

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC 7907

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E.O. 11652: N/A

TAGS: SHUM, EFIN, RP

SUBJECT: POSSIBLE ADB LOAN FOR LIVESTOCK AND DAIRY
DEVELOPMENT

REF: STATE 163028

1. SUMMARY. PILOT PROJECT FOR LIVESTOCK AND DAIRY DEVELOPMENT IS STILL IN FORMULATION STAGE, BUT MAY BE READY FOR FEASIBILITY STUDY BY AUGUST. APPROXIMATELY \$9 MILLION PROJECT WOULD SUPPORT DAIRY PRODUCTION AND IMPROVED SUPPORTING SERVICES BASED ON SMALLHOLDER FARMERS IN BUKIDNON, MINDANAO. PRIMARY BENEFICIARIES OF IMPROVED NUTRITION FROM AVAILABILITY OF FRESH MILK WOULD BE SMALLHOLDER FARMERS AND CONSUMERS IN AREAS WHERE PROJECT IS LOCATED. A SUCCESSFUL PROJECT WOULD PROBABLY INCREASE INCOMES OF SMALL FARMERS, LABORERS, AND LARGE FARMERS AND RANCHERS. END SUMMARY.

2. STAFF MEMBERS OF THE ADB AND PHILIPPINE MINISTRY OF AGRICULTURE (PMA) HAVE HAD DISCUSSIONS ON POSSIBLE ADB ASSISTANCE TO A LIVESTOCK DEVELOPMENT PROJECT WITH EMPHASIS ON DAIRY PRODUCTION. ASSISTANT SECRETARY OF AGRICULTURE MIGUEL ZOSA INFORMS US THAT THE PMA

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WISHES TO PUSH AHEAD WITH A COMPREHENSIVE DAIRY DEVELOPMENT PROGRAM FOR THE PHILIPPINES, BUT THAT ADB STAFF HAS CONVINCED THEM TO COMMENCE WITH A MODEST PILOT PROJECT IN MINDANAO. LATER PROJECTS ARE ENVISIONED FOR THE SOUTHERN TAGALOG AND BICOL REGIONS OF LUZON, AND THIS PROJECT COULD LATER BE EXTENDED TO THE DAVAO AREA. ZOSA HOPED THAT TERMS OF REFERENCE MIGHT

BE AGREED BY AUGUST, AND THAT TECHNICAL ASSISTANCE FROM THE ADB FOR A FEASIBILITY STUDY MIGHT BE INCORPORATED INTO A PROJECT LOAN. INQUIRIES AT THE ADB, HOWEVER, INDICATED THAT PLANNING IS LESS ADVANCED, AND THAT "MUCH MORE WORK NEEDS TO BE DONE" BEFORE THE PROJECT IS READY FOR FEASIBILITY STUDY.

3. AS PRESENTLY ENVISIONED, THE PROJECT WOULD HAVE THE FOLLOWING COMPONENTS:

- A. DEVELOPMENT OF EXISTING CENTERS FOR LIVESTOCK BREEDING IN THE BUKIDNON AREA OF MINDANAO. BUKIDNON, A HIGH PLATEAU, IS PARTICULARLY SUITED TO CATTLE RAISING, AND HAS A MIXTURE OF SMALL FARMERS AND LARGER CATTLE OPERATIONS. SMALL FARMERS PRODUCE MAINLY CORN AND YIELDS ARE LOW.

- B. PROVISION OF DAILY BREEDING STOCK

- C. PROVISION OF MILK PROCESSING AND MILK COLLECTION FACILITIES AND MARKET OUTLETS FOR THE MILK PRODUCTS

- D. ASSISTANCE IN ESTABLISHMENT OF COMMERCIAL AND SMALLHOLDER DAIRY FARMS, AND UPGRADING OF PRESENT SMALLHOLDER FARM OPERATIONS ("SMALLHOLDER" OPERATIONS LIMITED OFFICIAL USE

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WOULD BE BETWEEN ONE AND SEVEN HECTARES)

- E. UPGRADING OF NATIONAL DISEASE CONTROL FACILITIES (AIMED AT ERADICATING HOOF AND MOUTH DISEASE) AND LIVESTOCK EXTENSION SERVICES

- F. FUNDING OF THE VETERINARY FACULTY AT CENTRAL MINDANAO STATE UNIVERSITY (MALAYBALAY, BUKIDNON) WITH SPECIAL EMPHASIS ON DAIRY INDUSTRY DEVELOPMENT

- G. PROVISION OF NECESSARY CREDIT

- H. FUNDING OF DAIRY DEVELOPMENT RESEARCH

4. THE PRELIMINARY COST ESTIMATE FOR THE PROJECT IS \$9 MILLION, OF WHICH ABOUT \$4 MILLION WOULD BE FOREIGN EXCHANGE COST.

5. THE PROJECT AIMS TO IDENTIFY SUITABLE GROUPS OF SMALLHOLDER FARMERS TO PARTICIPATE, WITH PRIORITY GIVEN TO ESTABLISHED GROUPS. LARGE COMMERCIAL FARMERS WOULD BE ENCOURAGED TO DEVELOP DAIRY FARMS WITH THE HELP OF

CREDIT FACILITIES AND GOVERNMENT SUPPORT SERVICES.
PLANNERS RECOGNIZE SOME SPECIAL DIFFICULTIES WHICH
ARISE FROM THIS APPROACH:

- A. SMALL FARMERS ARE UNFAMILIAR WITH DAIRY ANIMALS
AND DAIRY FARM OPERATION
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- B. PRODUCTION FROM EACH FARM WILL BE LOW, REQUIRING
A HIGH RATE OF PARTICIPATION TO JUSTIFY ESTABLISHING

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COLLECTION SYSTEMS.

- C. SMALL FARMERS HAVE FEW RESERVE RESOURCES AND
OFTEN HAVE HAD BAD EXPERIENCE WITH PREVIOUS CREDIT
PROGRAMS.

6. FOR THIS SMALL PILOT PROJECT, DIRECT BENEFICIARIES
OF IMPROVED NUTRITION FROM INCREASED MILK PRODUCTION
WOULD PROBABLY BE LIMITED TO THE FAMILIES OF THE
PARTICIPATING SMALLHOLDER FARMERS
AND OTHER CONSUMERS IN NEARBY AREAS, BOTH GROUPS OF
WHICH ARE AMONG THE POOR MAJORITY. INCREASED INCOMES
FROM A SUCCESSFUL PROJECT WOULD PROBABLY BE SHARED
BY SMALLHOLDER FARMERS, LABORERS, LARGE FARMERS AND
RANCHERS.

7. IN 1977, MORE THAN 95 PCT OF THE RAW MATERIALS
REQUIRED TO PRODUCE APPROXIMATELY 700,000 M.T. OF
LIQUID MILK EQUIVALENT OF PROCESSED DAIRY GOODS FOR THE
PHILIPPINE MARKET WERE IMPORTED. THESE IMPORTS WERE

VALUED AT \$67.1 MILLION. HOWEVER, ANY INCREASED
FRESH MILK PRODUCTION FROM THIS PROJECT WOULD
PROBABLY GO TO INCREASED CONSUMPTION RATHER THAN
SUBSTITUTE FOR PRESENT IMPORTS.
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8. THE EMBASSY, INCLUDING USAID AND THE AGATT, AGREE
THAT VIABILITY OF DAIRY PRODUCTION IN THE PHILIPPINES
FACES A NUMBER OF HURDLES, PARTICULARLY IF IT IS TO
BE FOCUSED ON SMALL PRODUCERS (SEE PARA 5). WE WOULD
PRESUME, HOWEVER, THAT WHATEVER ADB TECHNICAL ASSIST-
ANCE IS EVENTUALLY AFFORDED WILL FOCUS ON THOSE
DIFFICULTIES. MURPHY

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